VZCZCXRO6789
PP RUEHMA RUEHPA
DE RUEHAR #1289/01 3371757
ZNR UUUUU ZZH
P 031757Z DEC 09
FM AMEMBASSY ACCRA
TO RUEHC/SECSTATE WASHDC PRIORITY 8595
INFO RUEHZK/ECOWAS COLLECTIVE
RUCPDOC/USDOC WASHDC 0710
RHEHNSC/NSC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 02 ACCRA 001289

SIPDIS

NSC WASHDC FOR MICHELLE GAVIN
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E.O. 12958: N/A
TAGS: ECON EFIN EINV BSSR GH
SUBJECT: GHANA: COKE ON THE ROCKS

¶1. SUMMARY: On November 18, the Minister of Finance and Economic Planning proposed a legislative change to the GOG's excise tax regime, moving from a specific tax to an ad valorem tax at an increased rate. Responding to beverage industry concerns with the proposed change, Ambassador proposed a meeting between Coca-Cola and MOFEP to discuss the impact on the industry. The Minister agreed to his tax policy experts meeting with the company prior to the legislation's enactment in mid-December. The Minister explained two reasons for the change: first, that the excise tax regime was performing poorly compared to GDP growth and needed fixing, and second, the current system of calculating excise tax was too burdensome on MOFEP. Given the current economic malaise and fiscal crisis, the GOG is seeking ways to get more creative in enhancing much-needed government revenues. At the same time, Coke feels it would shoulder an unfair share of the new, and regressive, tax burden. Post continues to lend its good offices to Coke in order to create a mutually beneficial solution to the current impasse with the GOG. There is no evidence that the proposed change would be applied in a discriminatory manner against U.S. or other foreign products. END SUMMARY.

¶2. Post was approached by Coca-Cola Equatorial Africa (Coke's franchise in Ghana) and their Spanish bottler, Coca-Cola Bottling Co. of Ghana Ltd., with concerns about a bill in Parliament to change the excise taxation system that was announced by the Minister of Finance and Economic Planning (MOFEP) on November 18. Coke is worried that the proposed change will increase their excise tax burden by USD 10-12 million in 2010 and the effective excise tax rate would jump from 13 to 20 percentage points.

¶3. In response to a request by the company, Ambassador used a previously scheduled opportunity to meet with Minister Duffuor to also query the GOG about the proposed change to the tax system, and to request that the ministry's tax policy unit meet with the firm to hear their concerns and hopefully work out a more equitable way to increase GOG tax revenue. Minister Duffuor agreed to make his staff available to meet with Coke and talk about the proposed changes before they become law. He admitted that he had not consulted with Coke and other affected companies because the change was a return from a specific tax back to the ad valorem tax system that had been in place until 2007, albeit at higher rates (20 percent vs a range of 13-16 percent in 2007). (NOTE: The excise tax is currently GHC 0.056, or USD.038, per liter. END NOTE.)

¶4. The Minister explained to Ambassador the GOG's rationale for the change. First, MOFEP is unhappy with the performance of the specific tax. Duffuor said the share of excise tax revenues to GDP over time has not kept pace with

GDP growth. Ambassador acknowledged the GOG's need to raise revenues as it continues to cope with the effects of its fiscal crisis. He reminded the Minister of the USG's past support for the GOG at the IFIs during the global financial crisis.

¶5. Second, the Minister claimed that the specific tax in use now was difficult for MOFEP to accurately calculate. He also asserted that the return to an ad valorem tax would be simpler to apply as it is applied to the ex-factory price -- basically the wholesale price of the product when it leaves the factory. Duffuor pointed out that the proposed changes would correct a previous discrepancy in the tax rate for carbonated and malted beverages. NOTE AND COMMENT: Coke, representing 94 percent of the carbonated beverage market in Ghana, in the past complained to the USG of tax discrimination -- their beverages had a higher tax than non-alcoholic malted beverages produced by Guinness Breweries.

¶6. NOTE AND COMMENT, CONTINUED. Separately, Econ staff was told by a MOFEP tax bureaucrat that their initial plan to use the Consumer Price Index (CPI) as the measure of inflation for excise tax computation was successfully opposed by firms including Coke last year, and the previous NPP government substituted the Producer Price Index (PPI) in its place -- with a reduction in government revenue, given that the CPI reflected a higher rate of inflation than the PPI. It is natural that the GOG would prefer to capture more tax through the CPI, and firms would seek to reduce their tax burden through use of the PPI. Coke officials told Econ and Comm Offs their belief that the ad

valorem tax was regressive, more complicated, and seldom used by other developing countries. PriceWaterhouseCoopers published an analysis of the GOG budget proposal, which said that the re-introduction of ad valorem excise duties may lead to increased costs, which will have to be passed on either to the producers or consumers, increase inflationary pressures, and reduce demand. It concludes that the GOG should consult with industry more closely in order to optimize revenue as a whole. Leaving aside the technical tax issues, it is apparent to Post that ministry officials are still smarting about the way the issue was resolved last year. However, Post reviewed the proposed wording and believes the new taxes would be applied in a non-discriminatory manner against all imports and domestic products, and against all soft drinks including bottled water. At the same time, the beverage industry feels it is taking the brunt of the GOG's efforts to improve its balance sheet. END NOTE AND COMMENT.

¶7. On November 30, Post debriefed Coke on the GOG meeting and urged the company to send its tax experts to meet with the GOG at the earliest possible opportunity, so that meaningful change can be affected before the legislation moves too far through Parliament, which must vote on pending legislation, including this bill, on December 18. The General Manager of Bottling, Conrad Van Niekerk, responded that Michael Goltzman, a Public Affairs executive resident in Cairo was the most appropriate official to visit, but given his current travel plans to Nigeria he would be unable to get to Accra until December 7. The Franchise Manager is currently on travel in the U.S. Van Niekerk also mentioned that he had reached out to the Spanish Trade Office for assistance with MOFEP, and is interested in sharing the PriceWaterhouseCoopers survey with the Ministry. He promised to brief Post on the results of these efforts and requested Post assistance in arranging a meeting at the appropriate level in MOFEP for Mr. Goltzman. Post offered assistance in arranging meetings, but stressed that Goltzman should arrive as soon as possible, preferably well before December 7, as currently scheduled.

¶8. COMMENT: There is no evidence to suggest that the GOG's proposed change to the excise tax system is targeted at foreign firms, or Coke specifically. Although Coke's tax burden would rise by the re-introduction of an ad valorem tax, all bottlers would be hit in the same way, and items such as alcohol and tobacco products will rise by an even higher rate. It is apparent that the GOG seeks creative ways to improve its tax governance and raise much-needed government income as it tries to reign in the rampant deficit under austerity budgets. There is a feeling among GOG economic planners that the government restricted its expenditures too much in 2009, which excessively hurt Ghana's growth rate in an economy that is overly dependent on public spending. The attempt at capturing more tax revenues is part of the government's attempt to rebalance that equation in 2010, and as such should not be seen as a policy to punish U.S. imports. Coke, reflecting the view of domestic bottlers, feels that it would be forced to pay an unfair amount in new taxes. There is still room for a win-win scenario if the company can replicate its positive government relations in other markets with the tax authorities in Ghana. END COMMENT.
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